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WESCORP



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WESCORP INDUSTRIES LTD. ANNUAL REPORT 1977



WESCORP





WESCORP INDUSTRIES LTD. 29TH ANNUAL REPORT TO SHAREHOLDERS



WESCORP INDUSTRIES LTD.

Ronald L. Cliff, C.A.
Chairman

David C. Pegg, C.A.
President

Andrew A. Keating
Vice-President

Nancy M. A. Cliff
Secretary

Eugenie E. Hillman
Assistant Secretary and Controller



PAFCO INSURANCE COMPANY LIMITED TORONTO

David C. Pegg, C.A.
Chairman

Andrew A. Keating
President

William G. Star
Executive Vice-President

A. E. Anderton
Treasurer

J. C. Emo
Secretary



WESTERN POTTERY CO. INC. LOS ANGELES

George S. Robinson
Chairman

Albert J. Davies
President

David C. Pegg, C.A.
Vice-President

Leslie E. Davidson
Secretary-Treasurer



MARINER HOMES LTD. PENTICTON

Allen G. Scott
President

Robert Foster
General Manager

George Pennock, R.I.A.
Controller



THE JAPANESE VILLAGE LTD. EDMONTON, CALGARY, OTTAWA

David C. Pegg, C.A.
President

Akio Higashio
Vice-President & General Manager

Eugenie E. Hillman
Controller



HOMEXPO CANADA EXPORTS LTD.

David C. Pegg, C.A.
Chairman

Allen G. Scott
President

Frederick R. Daniels, P. Eng.
General Manager

David C. Finlay
Secretary

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ANNUAL MEETING

The Annual Meeting of Shareholders
will be held in the Tudor Room of the
Hotel Georgia, Vancouver, B.C. on
June 9, 1978 at 11:00 a.m.

BOARD OF DIRECTORS

John G. Chaston, C.A., Chairman,
Pemberton Securities Limited
Nancy M. A. Cliff, Secretary,
Wescorp Industries Ltd.
Ronald L. Cliff, C.A., Chairman,
Inland Natural Gas Co. Ltd.
Harold H. Dingle, Director,
Okanagan Helicopters Ltd.
Andrew A. Keating, President,
Pafco Insurance Company Limited
David C. Pegg, C.A., President,
Wescorp Industries Ltd.
George S. Robinson, Chairman,
Western Pottery Co. Inc.
John E. Stark, Chairman,
Q Broadcasting Ltd.

EXECUTIVE OFFICES

980 West Pender St.
Vancouver, B.C.
V6C 1L5
Telephone: (604) 681-6177
Telex: 04-53140

BANKERS

The Royal Bank of Canada,
Vancouver, B.C.
Bank of Montreal, Penticton, B.C.
The Toronto-Dominion Bank,
Vancouver, B.C.
Bank of British Columbia,
Vancouver, B.C.
Bank of Nova Scotia, Calgary, Alberta
Security Pacific National Bank,
Los Angeles, California
Mercantile Bank of Canada,
Vancouver, B.C.

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited,
Vancouver, B.C.

AUDITORS

Peat, Marwick, Mitchell & Co.
Vancouver, B.C.

COMMITTEES OF THE BOARD

Audit Committee

John G. Chaston, C.A.
Harold H. Dingle
David C. Pegg, C.A.

Investment Committee

John G. Chaston, C.A.
Ronald L. Cliff, C.A.
Harold H. Dingle
David C. Pegg, C.A.
George S. Robinson

SHARES LISTED

Vancouver Stock Exchange

EARNINGS AND DIVIDENDS

	1977	1976
Earnings before extraordinary items . . .	\$ 1,294,486	\$ 922,463
Net earnings	1,294,486	1,348,915
Common shares outstanding	184,407	125,407
Earnings per common share before extraordinary items	7.86	7.54
Earnings per common share	7.86	11.09
Fully diluted earnings per share before extraordinary items	7.05	5.07
Fully diluted earnings per share	7.05	7.41
Dividends per common share69	.60

SOURCES OF REVENUE

Insurance	\$13,259,583	\$ 8,673,887
Housing and related products	11,662,652	9,421,647
Consumer goods*	—	2,036,045
Restaurant operations and other	2,098,731	2,048,259
	<u>\$27,020,966</u>	<u>\$22,179,838</u>

*Represents the revenues of a subsidiary company disposed of in 1976.

DIRECTORS' REPORT TO THE MEMBERS

WESCORP INDUSTRIES LTD.



Ronald L. Cliff, C.A., Chairman



David C. Pegg, C.A., President

1977 was an active, growth oriented year for Wescorp Industries Ltd. Consolidated assets, revenues and earnings from operations all surpassed levels of previous years. Revenues increased 22% to \$27 million from the previous year's total of \$22 million. Earnings from operations for the year were \$1.29 million compared to \$922,000 in 1976, an increase of 40%. Assets, likewise, grew from \$17.8 million in 1976 to \$24.3 million in 1977, an increase of 37%. Fully diluted earnings per share before extraordinary items increased 39% from \$5.07 the previous year to \$7.05 in 1977. Fully diluted earnings per share, after extraordinary items were \$7.05 in 1977 compared to \$7.41 in 1976. There were no extraordinary items in 1977.

Cash flow generated from operations increased to \$1.16 million, or \$6.32 per fully diluted common share from \$1.08 million, or \$5.86 per fully diluted common share. Capital expenditures amounted to \$134,000 in 1977, compared to \$238,000 in 1976. The Company employed a total of 375 persons as of December 31, 1977, compared to 420 the previous year. Salaries, wages and related employee benefits amounted to \$4.63 million from \$4.47 million in 1976.

The Company paid the following dividends in 1977:

first quarter	— fifteen cents (15¢)
second quarter	— seventeen cents (17¢)
third quarter	— seventeen cents (17¢)
fourth quarter	— twenty cents (20¢)

Total amount of dividends paid in the year was Sixty Nine cents (69¢) per share compared to Sixty (60¢) per share the previous year.

DIRECTORS' REPORT TO THE MEMBERS (Continued)

SUMMARY OF ACTIVITIES — 1977

Pafco Insurance Company Limited experienced a continued increase in business volume, asset growth, and profitability. Revenues increased \$4.6 million, or 35% with asset growth and profitability reflecting a similar growth trend.

Western Pottery Co. Inc. results for 1977 reflected sales and asset growth of approximately 10%, while earnings continued to increase at a very acceptable rate.

The 1977 performance of Mariner Homes Ltd., a 58% owned subsidiary, was disappointing and unacceptable. The Company experienced an increase in sales volumes of 26%. However, operating margins were significantly lower than planned and losses from operations were recorded for the second year in a row. Expected benefits from export sales were not realized until the first quarter of 1978. The export sales programme, together with improved controls over all phases of the business are expected to assist greatly in generating profitable results for 1978.

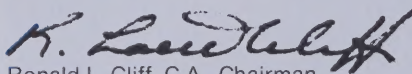
In late 1977 Wescorp acquired a majority interest in Homexpo Canada Exports Ltd. Homexpo is carrying on an active marketing and construction programme in the field of residential and industrial housing in the Middle East, and other parts of the world, and is currently engaged in two residential housing projects at four locations in Saudi Arabia.

The business operations of The Japanese Village Ltd., continued to improve in 1977. Sales were approximately equal to the previous year but continued improvement in operating margins allowed the Company to record a profit from operations for the first time.

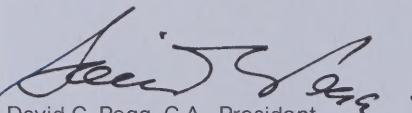
In summary, 1978 revenue and expense projections indicate a continuation of the controlled growth of past years. Improvement is expected in the Company's housing division, reflecting the efforts of an active export programme. The restaurant projections indicate satisfactory growth in revenue and earnings. Pafco Insurance 1978 operations will continue to show a satisfactory return while experiencing a reduction in volume of business and profitability due to a significant increase in competition. The Company's California manufacturing company is expected to show a satisfactory increase in operations.

The Board of Directors extends to all employees their many thanks for continued support in 1977. The sustained growth pattern of the Company is due to the fine effort made by all of them.

Respectfully,



Ronald L. Cliff, C.A., Chairman



David C. Pegg, C.A., President

FIVE-YEAR HISTORICAL REVIEW

FOR THE YEAR	1977	1976	1975	1974	1973
Revenues.....	\$27,020,966	\$22,179,838	\$14,114,905	\$12,967,680	\$11,980,292
Earnings from operations	1,294,486	917,647	75,997	207,471	284,054
Per average common share outstanding.....	7.86	7.54	.63	1.72	2.36
Extraordinary gains	—	431,268	—	73,240	17,343
Per common share	—	3.55	—	.61	.14
Net Earnings	1,294,486	1,348,915	75,997	280,711	301,397
Per common share	7.86	11.09	.63	2.33	2.50
Fully diluted net earnings per common share.....	7.05	7.41	.49	1.50	1.56
Dividends.....	.69	.60	.30	.45	.35

YEAR END STATUS

Total Assets	\$24,259,811	\$17,790,195	\$12,293,469	\$ 8,835,584	\$ 8,404,326
Total Liabilities	19,363,542	15,054,214	10,873,761	7,455,727	7,237,027
Shareholders' Equity	4,896,269	2,735,981	1,419,708	1,379,857	1,167,299
Book Equity per common share.....	26.55	21.82	11.78	11.45	9.69
Common shares outstanding..	184,407	125,407	120,487	120,487	120,487

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Wescorp Industries Ltd. as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Wescorp Industries Ltd. and those other companies of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. For one company consolidated in these consolidated financial statements we have relied on the report of the auditors who examined its financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles which, except for the change in the carrying value of land, buildings and manufacturing equipment set out in Note 4, were applied on a basis consistent with that of the preceding year.

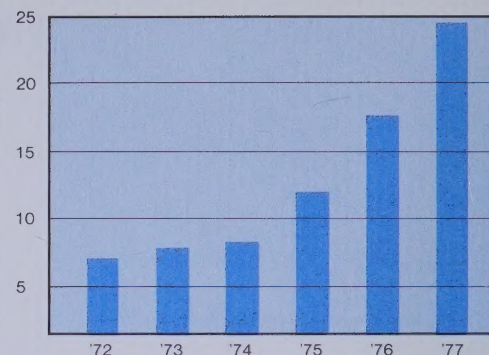
Vancouver, Canada
April 5, 1978

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1977

(With comparative figures for 1976)

TOTAL ASSETS
(in millions of dollars)



WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

ASSETS	1977	1976
Current assets:		
Cash	\$ 154,636	158,105
Cash of insurance subsidiary (Note 1(a))	500,000	—
Notes and accounts receivable	2,245,110	1,711,154
Inventories (Note 2)	1,981,496	2,495,850
Prepaid expenses	91,428	107,426
Total current assets	4,972,670	4,472,535
Assets of insurance subsidiary (Note 3)	15,933,596	10,821,185
	20,906,266	15,293,720
Property, plant and equipment (Note 4)	2,788,018	2,100,307
Investments and other assets (Note 5)	565,527	396,168
	<u>\$24,259,811</u>	<u>17,790,195</u>

See accompanying notes to consolidated financial statements.

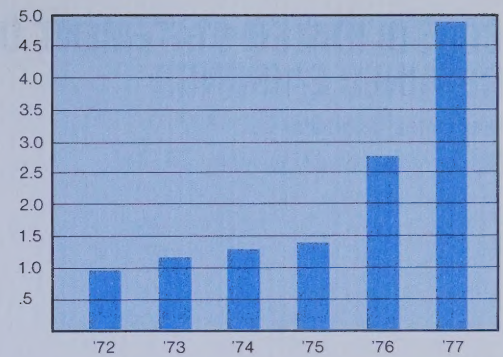
On behalf of the Board:

R. L. Cliff
David C. Pegg

Ronald L. Cliff, C.A.
Director

David C. Pegg, C.A.
Director

SHAREHOLDERS' EQUITY
(in millions of dollars)



LIABILITIES AND SHAREHOLDERS' EQUITY

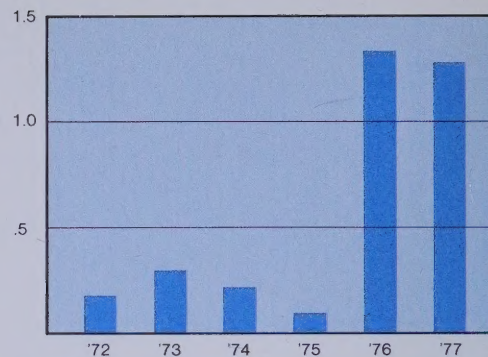
	1977	1976
Current liabilities:		
Bank demand loans (Note 6)	\$ 2,030,700	1,826,423
Demand notes and advances payable	—	256,213
Accounts payable and accrued liabilities	1,938,160	1,398,995
Mortgages payable	461,975	685,133
Unearned revenue	68,526	84,402
Current portion of long-term debt	336,535	562,397
Total current liabilities	4,835,896	4,813,563
Liabilities of insurance subsidiary (Note 3)	11,706,995	7,796,792
	16,542,891	12,610,355
Long-term debt (Notes 6 and 7)	2,820,651	2,433,026
Minority interest	—	10,833
Shareholders' equity:		
Capital stock (Note 8)	1,214,156	714,156
Contributed surplus	62,881	62,881
Unrealized excess of appraised value of assets over their net book value (Note 4)	467,136	—
Retained earnings, per accompanying statement (Note 14)	3,152,096	1,958,944
Total shareholders' equity	4,896,269	2,735,981
Contingent liabilities and commitments (Note 9)		
	\$24,259,811	17,790,195

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year Ended December 31, 1977

(With comparative figures for 1976)

NET EARNINGS
(in millions of dollars)



	1977	1976
Retained earnings at beginning of year	\$1,958,944	683,671
Net earnings	<u>1,294,486</u>	<u>1,348,915</u>
	3,253,430	2,032,586
Appraisal increment realized during the year (net of minority interest) (Note 4)	<u>17,057</u>	<u>—</u>
	3,270,487	2,032,586
Dividends on common shares	<u>118,391</u>	<u>73,642</u>
Retained earnings at end of year	<u><u>\$3,152,096</u></u>	<u><u>1,958,944</u></u>

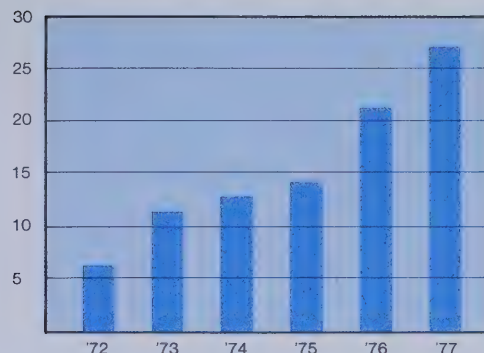
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

Year Ended December 31, 1977

(With comparative figures for 1976)

REVENUES
(in millions of dollars)



	1977	1976
Total revenue (Note 11)	\$27,020,966	22,179,838
Operations other than insurance:		
Net revenue	\$13,761,383	13,505,951
Cost of goods sold	12,649,828	11,221,064
	1,111,555	2,284,887
Insurance operations:		
Net premiums earned	13,259,583	8,673,887
Net claims and underwriting expenses	10,840,589	6,989,224
	2,418,994	1,684,663
Investment income	1,174,160	643,138
	3,593,154	2,327,801
Income from operations	4,704,709	4,612,688
Expenses:		
Administrative and selling	1,465,064	2,022,782
Depreciation and amortization	270,648	265,412
Interest — long-term debt	333,022	318,573
Interest — other	172,950	281,236
	2,241,684	2,888,003
Earnings before income taxes and undernoted	2,463,025	1,724,685
Income taxes (Note 10):		
Current	1,649,230	908,841
Deferred	(19,162)	63,969
	1,630,068	972,810
Earnings before the undernoted	832,957	751,875
Minority interest in loss of subsidiary	(461,529)	(170,588)
	1,294,486	922,463
Equity in losses of investees	—	(4,816)
Earnings before extraordinary items	1,294,486	917,647
Extraordinary items	—	431,268
Net earnings	\$ 1,294,486	1,348,915
Earnings per common share (Note 12):		
Earnings before extraordinary items	\$ 7.86	7.54
Extraordinary items	—	3.55
Net earnings	7.86	11.09

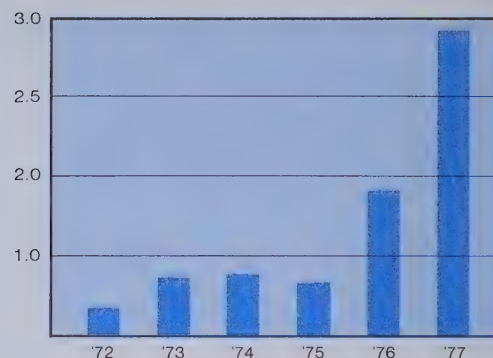
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ended December 31, 1977

(With comparative figures for 1976)

**EARNINGS — BEFORE
EXTRAORDINARY ITEMS
AND INCOME TAXES**
(in millions of dollars)



	1977	1976
Working capital provided:		
Operations:		
Earnings before extraordinary items	\$1,294,486	917,647
Add amounts not requiring an outlay of funds:		
Depreciation and amortization	270,648	265,412
Equity in losses of investees	—	4,816
Minority interest in loss of subsidiary	(461,529)	(170,588)
Other	62,215	63,576
Working capital provided by operations	1,165,820	1,080,863
Sale of property, plant and equipment	20,231	26,614
Issue of common shares	500,000	41,000
Long-term debt	887,625	—
Repayment of advances from investees	40,000	151,528
Disposal of investments	—	285,000
Total working capital provided	<u>2,613,676</u>	<u>1,585,005</u>
Working capital applied:		
Increase in net assets of insurance subsidiary (Note 3)	1,202,208	1,161,704
Property, plant and equipment	134,021	237,798
Other assets	181,254	26,989
Long-term debt repaid	—	400,129
Long-term debt converted on issuance of common shares	500,000	—
Dividends	118,391	73,642
Working capital deficiency arising on consolidation of The Japanese Village	—	283,595
Income taxes applicable to extraordinary items	—	84,729
Other	—	4,318
Total working capital applied	<u>2,135,874</u>	<u>2,272,904</u>
Increase (decrease) in working capital	<u>477,802</u>	<u>(687,899)</u>
Working capital (deficiency) at beginning of year	<u>(341,028)</u>	<u>346,871</u>
Working capital (deficiency) at end of year	<u>\$ 136,774</u>	<u>(341,028)</u>

See accompanying notes to consolidated financial statements.



**WESCORP INDUSTRIES LTD.
AND SUBSIDIARIES**

1. Accounting policies:

a) Consolidation:

The financial statements include the accounts of the company, The Japanese Village (a partnership) and all subsidiaries, including A.B.C. Acceptance Corporation Ltd., Mariner Homes Ltd., Pafco Insurance Company Limited, Japanese Village Ltd., Wescorp Properties Ltd. and Western Pottery Co., Inc. as well as eight inactive subsidiaries.

The accounts of the United States subsidiary have been converted to Canadian dollars at rates of exchange current at December 31, 1977 except that non-current assets and non-current debt are at rates prevailing at dates of acquisition or issue and items of income and expenses are at the average rate prevailing during the fiscal year.

No provision has been made for foreign taxes applicable on the transfer of the undistributed profits of foreign subsidiaries totalling \$600,000 (1976 — \$460,000) because it is not anticipated that these profits will be transferred in the foreseeable future.

Assets and liabilities of the insurance subsidiary are set out separately on the balance sheet as it is not considered appropriate to include them with other items of a similar nature on the balance sheet. In the opinion of management, however, the minimum amount which could be paid by the insurance subsidiary as a dividend, at any time and without restriction is \$500,000. Accordingly, a proportion of the cash of the insurance subsidiary has been included in current assets.

b) Inventories:

Inventories are valued at the lower of cost or net realizable value. Cost is determined on a first-in, first-out method except for real estate development which is based on original cost plus carrying charges.

c) Depreciation:

Depreciation is computed using both diminishing balance and straight-line methods so as to write off the original cost or appraised values of assets over their estimated useful lives.

d) Goodwill:

Management is of the opinion that the total goodwill arising on acquisition of subsidiaries has not diminished in value. However, in line with pronouncements of the Canadian Institute of Chartered Accountants it was decided in 1973 to commence amortization of all recorded goodwill over a fifteen year period.

e) Income taxes:

The company follows the tax allocation method in recording charges for income taxes. Taxes deferred as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings.

f) Revenue:

Insurance premium income is taken into earnings on a time basis over the periods covered by the policies, modified to the extent that the resulting unearned premiums at the end of each accounting period are reduced by 15% in partial recognition of the related acquisition and commission costs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1977

WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

2. Inventories:

	1977	1976
Raw materials	\$ 772,448	722,055
Work in progress	92,820	175,345
Finished goods	221,961	180,834
Real estate development	839,017	1,417,616
Other	55,250	—
	<u>\$ 1,981,496</u>	<u>2,495,850</u>

3. Assets and liabilities of insurance subsidiary:

The following are details of amounts appearing under these captions:

	1977	1976
Assets		
Cash and term deposits (less \$500,000 included in current assets)	\$ 2,885,892	943,892
Marketable securities (market value \$12,408,478; 1976 — \$9,261,404)	12,419,839	9,250,034
Accounts receivable	549,364	553,519
Equipment, at cost less accumulated depreciation	49,696	47,665
Other assets	28,805	26,075
Total assets	<u>\$15,933,596</u>	<u>10,821,185</u>
Liabilities		
Bank overdraft	\$ 188,641	—
Accounts payable	1,207,064	1,017,979
Income taxes payable	301,119	338,819
Provision for unpaid claims and expenses	8,124,080	4,366,662
Unearned insurance premiums	1,786,091	1,959,332
Deferred income taxes	100,000	114,000
Total liabilities	<u>\$11,706,995</u>	<u>7,796,792</u>

During the year, dividends from Pafco Insurance Company Limited amounted to \$372,000.

4. Property, plant and equipment:

Property, plant and equipment are at cost or appraised value less accumulated depreciation and amortization.

	1977	1976
Buildings	\$ 1,326,467	987,218
Paving and landscaping	70,269	69,969
Equipment	1,024,449	928,134
Leasehold improvements	819,055	819,055
Land	474,823	146,519
	<u>3,715,063</u>	<u>2,950,895</u>
Accumulated depreciation and amortization	927,045	850,588
	<u>\$ 2,788,018</u>	<u>2,100,307</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1977

WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

The buildings and manufacturing equipment of one of the company's subsidiaries have been restated as at January 1, 1977 at depreciated replacement value determined by Universal Appraisal Company Limited on October 5, 1976.

The carrying value of the land of the same subsidiary was restated during 1977 on the basis of an appraisal performed by Mountain Appraisals Ltd. on February 9, 1977.

At December 31, 1977, the company's share of the unrealized excess of appraised value over cost of land and depreciated cost of buildings and equipment was:

Land	\$ 328,304
Buildings and equipment	501,220
	<u>829,524</u>
Minority interest therein	345,331
	<u>484,193</u>
Current year's realization	17,057
	<u>\$ 467,136</u>

5. Investments and other assets:

	1977	1976
Deferred costs	\$ 245,295	180,851
Accounts receivable, non-current	114,942	—
Investments in and advances to investees	24,941	37,713
Goodwill, at cost less accumulated amortization	145,844	129,170
Other	34,505	48,434
	<u>\$ 565,527</u>	<u>396,168</u>

The minority interest in losses sustained by a subsidiary, Mariner Homes Ltd., during the year exceeded their share in the equity of that company by approximately \$105,000. In the opinion of management, the minority interest in the projected profits of that company in the succeeding year will exceed this amount and therefore it is included in deferred costs.

6. Security for bank indebtedness:

Bank demand and term loans are secured by assignments and hypothecations of accounts receivable and inventories as well as debentures creating a fixed and floating charge on certain subsidiaries' assets. In addition, the shares of subsidiary companies have been pledged as collateral security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1977

WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

7. Long-term debt:

a) Balances at December 31:

	1977	1976
Bank term loans repayable in annual instalments (over the next 11 years)	\$ 2,903,014	2,056,922
Agreement for sale — 8% due December 1, 1977	—	101,000
Debentures payable:		
Series B — 7½%, payable at \$17,000 per year, due November 15, 1981	73,000	73,000
Series C — 6½%, due November 1, 1987 (see Note 8)	—	500,000
Notes payable, unsecured:		
Due to shareholders — 6%	22,800	127,600
Other	158,372	136,901
	<u>3,157,186</u>	<u>2,995,423</u>
Less amounts currently due	<u>336,535</u>	<u>562,397</u>
	<u>\$ 2,820,651</u>	<u>2,433,026</u>

b) Security:

The long-term debt, other than notes payable, is secured by floating charges on the undertaking and other assets of the company and a subsidiary as well as charges on the land and buildings of a subsidiary. See Note 6 for details of the security for the bank term loans.

c) Repayment:

The aggregate amount of payments in each of the next five years to meet sinking fund requirements and the repayment of other long-term debt are estimated as follows:

1978	\$ 336,535
1979	368,986
1980	357,800
1981	296,300
1982	237,600

8. Capital stock:

	1977	1976
6% cumulative preference shares of \$100 par value per share redeemable at par. Authorized 1,500 shares; none outstanding.		
Common shares of no par value. Authorized 500,000 shares; issued 184,407 shares (1976 — 125,407 shares)	<u>\$ 1,214,156</u>	<u>714,156</u>

During the year 59,000 common shares were issued on conversion of \$500,000 of Series C debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1977

WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

9. Contingent liabilities and commitments:

a) Loan guarantees at December 31, 1977:

The company and a subsidiary were the guarantor of loans and indebtedness amounting to \$600,000. The actual amount outstanding on these loans at December 31, 1977 was \$565,224.

The company and a subsidiary have provided an unlimited guarantee for bank advances to Homexpo Canada Ltd., an investee of the subsidiary. As at December 31, 1977, the bank indebtedness of the investee was \$70,000. Subsequent to December 31, 1977 the bank loans of the investee were repaid and the credit facility cancelled.

b) Other guarantee at December 31, 1977:

The company had provided a guarantee to a maximum of \$2,000,000 to an insurance company which has provided bonds and guarantees of surety for contracts undertaken by a subsidiary. At December 31, 1977, there were no uncompleted contracts in progress.

c) Subsequent events:

Subsequent to December 31, 1977, Homexpo Canada Exports Ltd., a subsidiary, became one of the parties to an agreement to supply and erect prefabricated housing units for the Arabian American Oil Company in Saudi Arabia.

As a result the company and certain of its subsidiaries have provided unlimited guarantees in connection with the following:

- i) a bank loan of \$4,750,000 to Homexpo Canada Exports Ltd.,
- ii) any and all liabilities of Homexpo Canada Exports Ltd. to the Export Development Corporation,
- iii) the performance of the site contractor.

d) Leases:

The company, its subsidiaries, and the partnership in which it effectively has a 100% interest, are obligated under long-term lease agreements for aggregate basic annual rentals over the next five years as follows:

1978	\$ 237,000
1979	192,000
1980	187,000
1981	155,000
1982	112,000

10. Income taxes:

No provision has been made in the accounts for tax reductions which might arise in future years as a result of the application of tax losses of \$1,887,700 and other timing differences of \$737,964. The accumulated tax losses will expire in the years ended December 31, as follows:

1978	\$ 154,700
1979	74,400
1980	187,800
1981	339,000
1982	1,131,800
	<u>\$ 1,887,700</u>

The income tax provision for the current year is high when compared with the earnings before income taxes mainly because the future benefit arising on taxable losses incurred in the current year by one of the subsidiaries has not been recognized in the statement of earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 1977

WESCORP INDUSTRIES LTD. AND SUBSIDIARIES

11. Revenue:

Principal sources of revenue were as follows:

	1977	1976
Manufacturing	\$11,662,652	9,421,647
Insurance operations	13,259,583	8,673,887
Wholesaling	—	2,036,045
Restaurant operations and other	2,098,731	2,048,259
	<u>\$27,020,966</u>	<u>22,179,838</u>

12. Earnings per common share:

The basic earnings per share have been computed by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year.

In computing the fully diluted earnings per share, the number of common shares outstanding has been calculated assuming that all the debentures converted during the year had been converted into common shares at the beginning of the year. Net earnings used in this calculation were increased by the interest after income taxes on these debentures. No dilutive factors remain outstanding as at December, 31, 1977.

Fully diluted earnings per common share are:

	1977	1976
Earnings before extraordinary items	\$ 7.05	5.07
Extraordinary items	—	2.34
Net earnings	<u>7.05</u>	<u>7.41</u>

13. Statutory information:

Aggregate direct remuneration paid by the company and its subsidiaries to directors of the company, as directors, during the year ended December 31, 1977 was \$9,700 (1976 — \$4,350) and to directors and senior officers, as employees, was \$284,000 (1976 — \$136,000).

14. Anti-Inflation Act:

The company and two of its major subsidiaries are subject to the legal enforcement of restraints under the Anti-Inflation Act, effective October 14, 1975. The company is restricted to dividend payments of \$1.83 per common share during the twelve months ending October 13, 1978. The applicable restraints for the subsidiaries relate to price and profit margin controls, compensation controls and dividend payments.

WESCORP



WESCORP INDUSTRIES LTD.
407 - 980 West Pender Street
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SUBSIDIARIES:

A.B.C. Acceptance Corporation Ltd.
Homexpo Canada Exports Ltd.
Mariner Homes Ltd.
Pafco Insurance Company Limited
The Japanese Village Ltd.
Wescorp Properties Ltd.
Western Pottery Co., Inc.